

Message Text

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ACTION EB-08

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O R 291920Z AUG 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC IMMEDIATE 8820
INFO AMEMBASSY ABIDJAN
AMEMBASSY ADDIS ABABA
AMEMBASSY BOGOTA
AMEMBASSY LONDON
AMEMBASSY MEXICO
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 3 BRASILIA 6798

FOR EB/ICD/TRP
PASS AGRICULTURE

EO 11652 GDS
TAGS ETRD BR
SUBJECT: COFFEE: BRAZILIAN VIEWS ON PRODUCERS' MEETING

REF: BRASILIA 6461

1. SUMMARY. BRAZIL AND OTHER COFFEE PRODUCERS REMAIN DETERMINED TO BRING COFFEE AGREEMENT INTO OPERATION AT SEPTEMBER COUNCIL MEETING ALTHOUGH NO AGREEMENT HAS YET BEEN REACHED AMONG PRODUCERS CONCERNING PRICE RANGE OR THE METHOD OF IMPLEMENTING QUOTAS. PRIMARY FOCUS OF BOGOTA MEETING WAS THE EFFECT OF THE FROST IN SOUTHERN BRAZIL COFFEE REGIONS AND CONCERN OVER DECLINING COFFEE CONSUMPTION. THIS MESSAGE ALSO DISCUSSES FUTURE OF BRAZIL IN THE COFFEE MARKET AND IMPLICATIONS FOR COMPETITORS AND THE ICA.END SUMMARY.

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2. ECONOMIC OFFICERS PAID A CALL 28 AUGUST ON JORIO DAUSTER (FROM THE BASIC PRODUCTS DIVISION OF ITAMARATY) UPON HIS RETURN FROM BOGOTA TO DISCUSS THE RESULTS OF THE COFFEE PRODUCERS MEETING. DAUSTER STATED THAT THE PRIMARY FOCUS OF THE MEETING WAS REPORT BY CAMILO CALAZANS ON THE EFFECTS OF RECENT FROST. ACCORDING TO CALAZANS' PRESENTATION, FROST DAMAGE IS NOT YET KNOWN AND NO ACCURATE

ESTIMATES CAN BE MADE UNTIL LAST FLOWERING IN NOVEMBER. DESPITE THIS DISCLAIMER, CALAZANS REPORTED THAT UNLESS THERE IS GOOD WEATHER BETWEEN NOW AND NOVEMBER TOTAL LOSSES WILL BE IN THE RANGE OF 6 TO 8 MILLION BAGS. WITH GOOD WEATHER, HOWEVER, LOSSES COULD BE AS SMALL AS 3 MILLION BAGS. ACCORDING TO DAUSTER THE LARGER LOSS COULD CAUSE BRAZIL SOME PROBLEMS AS THIS WOULD LEAVE PRODUCTION NEXT YEAR AT 17 TO 18 MILLION BAGS AND BRAZIL ONLY HAS 6 TO 7 MILLION BAGS IN STOCK. WITH DOMESTIC CONSUMPTION RUNNING AT 7 MILLION BAGS PER YEAR AND ASSUMING EXPORTS AT 12 MILLION BAGS, BRAZIL WOULD BE LEFT WITH 5 MILLION BAGS AT THE END OF COFFEE YEAR 78/79. THE IBC CONSIDERS 5 MILLION BAGS TO BE PIPELINE OR WORKING STOCK LEVELS. DAUSTER CONSIDERS THE NECESSITY OF MAINTAINING EXPORTS AT 12 MILLION BAGS OVER THE NEXT YEAR AS DISADVANTAGEOUS TO BRAZIL BECAUSE A PROLONGED REDUCTION IN THE AVAILABILITY OF BRAZILIAN COFFEE MAY INDUCE ROASTERS TO MAKE CHANGES IN THEIR COFFEE BLEND WHICH WOULD COMPLICATE BRAZILIAN MARKETING. MORE IMPORTANTLY, OTHER PRODUCERS HAVE TAKEN ON A SHARE OF BRAZIL'S MARKET AND ARE GOING TO BE RELUCTANT TO GIVE IT UP WHEN BRAZIL'S PRODUCTION RETURNS TO MORE NORMAL LEVELS. FYI. BRAZIL'S MARKET SHARE WAS APPROXIMATELY 23 PERCENT IN 1975, 22 PERCENT IN 1976, AND ONLY 18 PERCENT IN 1977, A FAR CRY FROM WHAT BRAZIL HAS TRADITION-

- ALLY CLAIMED AS ITS SHARE (ABOUT ONE-THIRD). END FYI. AS A RESULT OF THESE CONSIDERATIONS, DAUSTER SAID THAT AT THE MEETING CALAZANS REPEATED HIS 1975 WARNING TO PRODUCING NATIONS THAT BRAZIL INTENDS TO REGAIN ITS TRADITIONAL EXPORT LEVEL OF 18 MILLION
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BAGS.

3. DAUSTER FORESEES INCREASING TENSIONS BETWEEN BRAZIL AND OTHER COFFEE PRODUCERS IN THE FUTURE AS BRAZILIAN COFFEE PRODUCTION RECOVERS AND BRAZIL ATTEMPTS TO REGAIN COFFEE MARKETS LOST DURING THE PERIOD AFTER THE 1975 FROST. BRAZILIAN PRODUCTION, FOLLOWING THE BAD YEAR EXPECTED NEXT YEAR, SHOULD INCREASE SIGNIFICANTLY (PERHAPS TO 26 TO 27 MILLION BAGS) AS THE FROST ACTS AS A NATURAL PRUNING PROCESS AND GOOD YEARS TRADITIONALLY FOLLOW BAD. IN

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ADDITION, YOUNG TREES ALREADY PLANTED WILL MATURE AND BEAR FRUIT. DAUSTER HOPES THAT BRAZIL CAN REBUILD ITS MARKET SHARE SLOWLY WITHOUT DISRUPTING THE POSITIONS OF OTHER PRODUCERS, IF ONLY TO AVOID THE POLITICAL COSTS OF AN AGGRESSIVE BRAZILIAN MARKETING STRATEGY. IN PART, INCREASING FUTURE PRODUCTION CAN BE CHANNELLED INTO REBUILDING BRAZILIAN STOCKS (THE IBC ESTIMATES THAT BRAZIL REQUIRES 30 MILLION BAGS) AND AN EXPANDING MARKET WOULD ALLOW THE EXPANSION OF BRAZILIAN EXPORTS WITHOUT REDUCING THE EXPORTS OF OTHER PRODUCERS. AS SUCH, BRAZIL HAS A SPECIAL INTEREST IN EXPANDING WORLD CONSUMPTION. ON THE OTHER HAND, IN THE CURRENT STAGNANT MARKET SOME PRODUCING NATIONS WOULD BE HURT. DAUSTER ADDED THAT ONE ROLE THE ICA COULD PLAY WOULD BE TO ALLOW THE GRADUAL RETURN OF BRAZIL TO ITS TRADITIONAL MARKET SHARE, PROVIDING A SET OF FORMAL RULES THAT WOULD MUTE CRITICISMS OF BRAZILIAN POLICY BY OTHER PRODUCER.

4.A SECONDARY PORTION OF THE BOGOTA MEETING CONCERNED THE DEVELOPMENT OF A PRODUCER POSITION FOR THE SEPTEMBER COFFEE COUNCIL.
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FIRM PRODUCER POSITIONS COULD NOT BE ESTABLISHED BECAUSE OF THE ABSENCE OF OFFICIAL AFRICAN REPRESENTATION; HOWEVER, PARTICIPANTS AGREED THAT IT IS IMPORTANT TO BRING THE ICA INTO OPERATION AT THE BEGINNING OF THE NEW COFFEE YEAR. CONTRARY TO PRESS REPORTS, PRODUCERS DID NOT DECIDE ON A PRICE RANGE. THE CONSENSUS WAS, HOWEVER, THAT THE PRICE RANGE MUST NOT FURTHER AGGRAVATE THE DECLINE IN CONSUMPTION AND SUGGESTIONS ON POSSIBLE PRICE LEVELS RANGED BETWEEN \$1.00 AND \$2.00 PER POUND. DAUSTER MENTIONED THAT ONE ANALYSIS INDICATED THAT CONSUMPTION BEGINS TO DECLINE AT \$2.50 PER POUND RETAIL. ALLOWING 90 CENTS SPREAD BETWEEN RETAIL AND RAW BEAN PRICES, THIS WOULD PROVIDE A PRICE OF \$1.60 AS A LEVEL TO BE DEFENDED BY AN INTERNATIONAL AGREEMENT. (COMMENT: DESPITE

DAUSTER'S ATTEMPTS TO PROVIDE OBJECTIVE JUSTIFICATIONS FOR PRICE RANGE LEVELS, IT IS OBVIOUS THAT THE CURRENT FIRM MARKET PRICES HAVE INFLUENCED HIS THOUGHTS ON THE PROPER PRICE LEVEL (SEE REFTEL A). END COMMENT.) DAUSTER RAISED THE POSSIBILITY THAT THE COUNCIL COULD ESTABLISH A PRICE RANGE WITHOUT QUOTAS DEPENDING ON THE SITUATION IN SEPTEMBER, ALTHOUGH IN HIS OPINION QUOTAS WOULD BE USEFUL TO CONSUMERS BY REDUCING ROASTER UNCERTAINTY OVER THE AMOUNT OF COFFEE THAT WOULD BE AVAILABLE OVER THE COMING COFFEE YEAR. THE QUESTION OF A BRAZILIAN SHORTFALL DECLARATION WAS ALSO DISCUSSED AT THE PRODUCER MEETING AND BRAZIL REITERATED ITS WILLINGNESS TO MAKE AN ADVANCE ANNOUNCEMENT.

5. DAUSTER STATED THAT THE GENERAL PERCEPTION BY PRODUCERS IS THAT THE EUROPEANS ARE PREPARED TO BE FORTHCOMING ON THE QUESTION OF A PRICE RANGE BUT THAT THE US WILL INSIST ON PRICES AT LESS THAN \$1.00 PER POUND. HE AGREED THAT THE FALL OF THE DOLLAR ON INTERNATIONAL MARKETS ALLOWS THE EUROPEANS TO BE LESS CONCERNED ABOUT PRICES, BUT STATED THAT IN THE PRODUCERS' VIEW THE US POSITION SHOWS A LACK OF INTEREST IN COOPERATION WITHIN THE AGREEMENT. HE ADDED THAT PRODUCERS HAD ALSO DISCUSSED MEASURES TO BE TAKEN IF THE SEPTEMBER MEETING DID NOT BRING "POSITIVE RESULTS." DAUSTER
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DID NOT SPECIFY THESE MEASURES BUT WEEKEND NEWSPAPERS QUOTED CALAZANS AS SAYING PRODUCERS WILL TAKE UNILATERAL ACTIONS TO DEFEND PRICES IF IN THE COFFEE COUNCIL MEETING "CONSUMERS DO NOT AGREE TO FIX REASONABLE PRICES." DAUSTER STRESSED THAT BRAZIL PREFERS TO WORK THROUGH THE ICA AND IS READY TO COMPROMISE TO ACHIEVE POSITIVE RESULTS.

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6. ON AN ESTABLISHMENT OF AN INTERNATIONAL STOCK, DAUSTER WAS DISAPPOINTED THAT THE US HAD REJECTED THE MEXICAN PROPOSAL. IN HIS OPINION, QUOTAS PROVIDE GREATER PROTECTION FOR PRODUCERS THAN FOR CONSUMERS AND THEREFORE THE US POSITION ON STOCKS IS DIFFICULT TO UNDERSTAND. QUESTIONED ON POSSIBLE MEASURES TO IMPROVE THE FUNCTIONING OF NATIONALLY HELD STOCKS AS A REGULATING DEVICE, DAUSTER STATED THAT BRAZIL IS OPPOSED TO INTERNATIONAL CONTROL WITHOUT SOME FORM OF INTERNATIONAL FINANCING BUT IS WILLING TO DISCUSS ANY CONSUMER IDEAS.

7. FINALLY, COLOMBIA, IN PARTICULAR, WAS CONCERNED OVER DECLINING CONSUMPTION AND CALLED FOR MORE EFFECTIVE PROMOTION ACTIVITIES DURING THE PRODUCER MEETING.

PRODUCERS WERE CRITICAL OF THE US COFFEE TRADE FOR THEIR LACK OF INTEREST IN USING FUNDS AVAILABLE IN THE ICA PROMOTION FUND (NOW ABOUT \$11 MILLION). INDICATIONS ARE THAT SOME PRODUCERS MAY RECOMMEND AT THE COFFEE COUNCIL IN SEPTEMBER THAT CONTRIBUTIONS TO THE FUND BE ENDED OR THAT FUNDS ALREADY COLLECTED BE RETURNED
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TO FINANCE PRODUCER ADVERTISING CAMPAIGN.

8. COMMENT: DAUSTER GAVE A THOROUGH REVIEW OF BRAZIL'S POSITION AND CONCERNS. FROM HIS PRESENTATION, IT APPEARS THAT AT THE PRESENT TIME NEITHER BRAZIL NOR OTHER PRODUCERS HAVE A CLEAR CONCEPT OF HOW TO APPROACH IMPLEMENTATION OF OPERATION PROVISIONS OF THE ICA IN SEPTEMBER AND ARE HOPING FOR A STRONGER US LEAD. THE UNCERTAINTY CAUSED BY THE LATE AUGUST FROST AND CONCERNS OVER THE ABILITY OF BRAZIL TO MEET ITS ICA QUOTA MAKES DECISION ON A PRICE RANGE AND QUOTAS RISKY AT BEST. THE ONE QUESTION ON WHICH PRODUCERS ARE UNITED IS THAT THE AGREEMENT SHOULD ENTER INTO OPERATION IN THE NEW COFFEE YEAR COMMENCING OCTOBER 1. DAUSTER'S REVIEW OF THE MARKET SITUATION FACING BRAZIL OVER THE NEXT FEW YEARS MAY EXPLAIN BRAZIL'S NEW, IF TEPID, INTEREST IN AN INTERNATIONAL BUFFER STOCK. PURCHASES BY AN INTERNATIONAL AUTHORITY WOULD ALLOW BRAZIL TO SELL ITS INCREASING PRODUCTION WITHOUT REPLACING OTHER PRODUCERS IN NEW MARKETS. AT THE SAME TIME, BRAZIL WOULD BUILD UP A TRACK RECORD TO JUSTIFY A RETURN TO ITS TRADITIONAL POSITION IN THE WORLD MARKET. IN HIS STATEMENTS ON PRODUCTION AND STOCK FIGURES, DAUSTER WAS ON OCCASION INCONSISTENT

WITH FIGURE ATTRIBUTED TO IBC.
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Message Attributes

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Status: NATIVE
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To: STATE
Type: TE
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